

Master Document – Audit Program

Activity Code		Incurred Cost – Major Post Year End Audit
Version 7.1, dated December 2004		
B-1	Planning Considerations	
Purpose and Scope		
<p>This program is intended to provide a logical sequence to the audit fieldwork and to reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps are intended as general guidance and should be expanded or eliminated as necessary to fit the current audit. Those steps not required should be lined though or deleted as appropriate for your FAO. Moreover, this program is intended to be the controlling assignment for the entire incurred cost audit of a contractor fiscal year. It is expected that those portions of the audit which are covered in other work packages will be referenced at the appropriate place in this master assignment, including budgeted and actual hours. This is a necessary step for summarizing and reporting of dollars audited and incurred hours, especially hours incurred in concurrent audits. Audit programs in other work packages should be cross-referenced back to the control assignment and audit step.</p>		
<p>1. The purpose of incurred cost auditing is to determine whether costs charged to auditable Government contracts are reasonable, allowable, and allocable in accordance with the contract and applicable Government acquisition regulations.</p>		
<p>2. The audit steps are internally cross-referenced and referenced to the Contract Audit Manual (CAM), the Cost Accounting Standards (CAS) and the contractor's CAS Board Disclosure Statement (D/S), the Federal Acquisition Regulation and DoD FAR Supplement (FAR/DFARS), the Internal Control Audit Planning Summary (ICAPS), Mandatory Annual Audit Requirements (MAARs). See CAM 6-1S1 for a listing of MAARs and their objectives.</p>		
<p>3. The MAARs concept makes a presumption of materiality of certain audit steps. The auditor is expected to exercise professional judgment, considering vulnerability and risk, in determining the scope of audit. Transaction testing will be done in accordance with the transaction test plan developed regardless of whether the test in question happens to be a MAAR.</p>		
<p>4. The auditor should determine by checking the permanent files and prior audit working papers if significant costs related to CAS have been identified and required compliance testing has been accomplished. Testing for CAS 401, 402, 405, and 406 should be performed during this audit. Compliance with certain CAS 412 and 413 provisions related to defined benefit pension plans must be tested annually, even if there are no pension costs incurred. Applicable audit steps are provided in Section I-1, Special Purpose Evaluation, step 2.c. For all other applicable CAS provisions, compliance testing should be performed at least every three years, except if the contractor has made significant cost accounting changes that would require CAS</p>		

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compliance testing in the interim. If the required CAS compliance testing was not performed, the supervisor should determine that appropriate CAS compliance testing audit procedures are included in the program. Many CAS standards have been partially implemented by the FAR Cost Principles, as follows:				
	<u>Standard</u>	<u>FAR Reference</u>	<u>Standard</u>	<u>FAR Reference</u>
	401	31.201-1, 31.203(d)	410	31.203, 31.201-4
	402**	31.202, 31.203(a)	411	31.205-26
	403	31.203, 31.201-4	412*	31.205-6(j)
	404**	31.205-11(m), 31.205-16	413*	31.205-6(j)
	405**	31.201-2, 31.201-6	414*	31.205.10(a)
	406	31.203(e)	415*	31.205-6(i) & (k)
	407	31.201-1	416*	31.205-19(a)
	408	31.205-6(a) & (m)	417	31.205-10(b)
	409**	31.205-11	418	31.203, 31.201-4
			420	31.205-18(b)
* These standards are incorporated by reference under most circumstances.				
** These standards are substantively duplicated by the cost principles.				
5. A listing of incurred cost audit codes and their objectives is contained in the DMIS User Guide. The determination of which individual packages will be established at major contractor locations will be determined during the planning process. IMPORTANT: The transaction test steps appearing in detailed sections of this audit program represent an outline which merely references related preliminary steps, prompts performance of MAARs, and identifies the portion of the ICAPS to be updated. The supplemental audit steps for each audit area should be added and budgeted into this outline during the process of finalizing the audit program.				
6. This master program does not provide detailed audit steps for the testing of individual transactions. It is expected that transaction test programs will be developed locally to permit the efficient gathering of evidential matter at individual locations. However, transaction test programs which seem to have general applicability should be submitted through the region to Headquarters, ATTN: PAS for consideration for Agency-wide use. The purpose of transaction testing is to determine that claimed costs are allowable, allocable, and reasonable. Transaction testing working papers should include the criteria (e.g., FAR citations/requirements) used to evaluate the transactions, the nature/description of the transaction evaluated, and the results of the evaluation.				
7. This assignment will be performed in two steps: first, the update of permanent files, reconciliations, tracing to books and records, and comparison to prior years; and				

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second, final scope decisions and preparation of the supplemental audit programs for transaction testing based on the existing plan and the updated information arising from the preliminary data gathering process.	
References	
	FAR 42.7, DFARS 242.7
	FAR 31.2, DFARS 231.2
	Applicable Agency FAR Supplement(s)
	CAM 1-504, Access to Contractor Records
	CAM 4-400, Audit Working Papers
	CAM Chapter 6, Incurred Costs Audit Procedures
	CAM Chapter 7, Selected Areas of Cost
	CAM Chapter 8, Cost Accounting Standards
	CAM 10-500, Audit Reports on Annual Incurred Costs
	CAM 3-200, Briefing of Contracts and Requests for Proposals
	CAM 4-702.3, Fraud Indicators and Audit Procedures for Uncovering Fraud
	CAM Figure 4-7-3, Examples of Characteristics and Types of Activity Associated with Illegal Expenditures and Acts for Specific Audit Areas

B-1	Preliminary Steps	W/P Reference
Version 7.1, dated December 2004		
	1. Evaluate the contractor's proposal. If not already provided electronically, request the contractor to submit its proposal and supporting data in electronic media, (e.g., CD-ROM, on-line access). The data should be in an acceptable format for processing on DCAA computers (e.g., Microsoft Office products). The submission must be accompanied by a Certificate of Indirect Costs, in accordance with FAR 42.703-2, and the following data should either be included with the indirect rate proposal or be available in the contractor's files:	
	a. Summary schedule of bases, pools, and rates (MAAR 14) (CAM 6-610.2) and certification of allowability.	
	b. Detailed schedule of account balances within pools. (MAAR 15)	
	c. Schedule of auditable contracts and subcontracts by Government	

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agency (CAM 10-504.5e(7)) and cross-reference to contractor ID number, including identification of CAS covered contracts and contracts that contain or should contain the penalty clause (FAR 52.242-3 or DFARS 252.231-7001 or 52.231-7002; CAM 6-609).	
d. Schedule of direct costs by element within (sub)contract, (MAAR 2), including direct hours by labor category for Time & Material and/or Labor Hour contracts.	
e. Schedule of contract closing information for contracts completed during the fiscal year and a schedule of cumulative direct and indirect costs claimed and billed.	
f. Copies of Federal income tax returns, state income tax returns, and payroll tax returns. (MAAR 4)	
g. Where applicable, copies of audited financial statements (MAAR 4) and SEC filings.	
h. Reconciliation of booked to billed cost.	
i. Applicable Board of Directors' minutes and audit committee minutes for the year(s) being audited. (CAM 3-104.16(e))	
j. List of internal audits performed within the accounting period.	
This data should have been requested in the indirect expense proposal letter. The supervisor may authorize initiation of the preliminary audit steps prior to constructive receipt of all required data. Transaction testing ordinarily should not proceed until all required data have been made available.	
2. Coordinate with the contracting officer. Notify the contracting officer of the commencement of the audit and expected completion date (CAM 4-103). Discuss any concerns that the contracting officer might have and the planned audit steps that address the concerns, if applicable.	
3. MAAR 3: Obtain current organization charts. Compare to charts contained in the permanent file; identify any changes in organizational structure. Update the following information in the permanent file for the year(s) being audited. If the information is not in the permanent files, obtain it during this audit.	
a. Number of direct and indirect employees.	
b. Plant layouts and floor space utilization.	
c. Services performed by outside auditors.	
d. Copy of external auditor's internal control letter or statement that the external auditor did not prepare an internal control letter. For publicly traded companies that file financial information with the SEC, review the "internal control report" prepared by management	

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that accompanies the financial statements.	
e. Listing of financial and managerial reports.	
f. Schedule of employee awareness training programs. (CAM 5-907)	
4. For CAS covered contractors, check the permanent file to ensure all significant CAS have been identified. Compliance testing for CAS 401/FAR 31.201-1 and 31.203(d); CAS 402/FAR 31.202 and 31.203(a); CAS 405/FAR 31.201-2 and 31.201-6; and CAS 406/FAR 31.203(e) should be performed in the applicable steps in this audit program. Compliance with certain CAS 412 and 413 provisions/FAR 31.205-6(j) related to defined benefit pension plans must be tested annually, even if there are no pension costs incurred. Applicable steps are provided in Section I-1, Special Purpose Evaluation. Compliance on other CAS standards should also be considered in the subsequent steps, if applicable (See CAM 8-305). If additional compliance testing for other significant standards is required, coordinate with the supervisor to determine the feasibility of performing the necessary compliance audits concurrently with this examination.	
5. Evaluate the contractor's overall operation to determine whether major changes have occurred in:	
a. MAAR 7: Direct/Indirect charging procedures and practices (CAM 6-603.4).	
b. Business volume or modernization of manufacturing facilities.	
c. Determine whether these changes (if any) have had, or should have had, an impact on the contractor's direct/indirect charging practices, allocation bases, contract mix, etc.	
d. Ascertain if the contractor underwent a business combination which was accounted for by the purchase method of accounting. If so, determine that the write-up (or write-down) of the asset values has been properly accounted for and claimed by the contractor. For contracts entered into before July 23, 1990, the difference between the acquired company's net book value of the assets and the appraised market value of the assets should be credited to the Government (CAM 7-1705.3). For contracts entered into on or after July 23, 1990, the amount of allowable depreciation and cost of money for these assets is limited to the amount that would have been allowable had the combination never taken place (CAM 7-1705.3).	
e. Evaluate any revisions to the CAS disclosure statement.	
f. Update the permanent file.	
6. Prepare the following reconciliations:	

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a. MAAR 2: Reconcile totals of direct cost by element to appropriate ledger totals.	
b. MAAR 4: If the contractor is not a corporation which prepares consolidated financial statements, evaluate the contractor's reconciliation of the submission to the financial statements. Use the corporate financial statements, tax returns and SEC filings. Obtain documentation of a review at the corporate level if appropriate.	
c. MAAR 4: The corporate auditor should furnish copies of the consolidated financial statements to division auditors. The division auditor should call the corporate auditor to determine the approximate date these will be available, and should advise the corporate auditor of any non-receipt of anticipated data. All auditors should check the notes to the financial statements for possible audit leads. Note unusual items for audit follow-up. (CAM 3-104.16)	
d. MAAR 9: Reconcile payroll totals (dollar value and hours) with totals of related labor cost distribution records. The auditor should have the contractor reconcile total salaries and wages to payroll tax returns (IRS Form 941) when the contractor's labor system has been determined to be inadequate or inadequate in part due to deficiencies found in the contractor's payroll preparation and payment control activities. (CAM 6-406.2a(6))	
e. MAAR 14: Check the contractor's reconciliation of claimed base and pool amounts to the contractor's cost accounting records and to totals of the detail accounts already reconciled. (CAM 6-610.2)	
f. MAAR 15: Compare base and pool totals to prior year and budgetary amounts. Determine if the indirect rate structure to accumulate actual costs is consistent with the indirect rate structure used to prepare forward pricing indirect rates for the same year. (CAS 401/FAR 31.201-1 and 31.203(d))	
g. MAAR 15: Compare detail accounts within pools to prior years and budget to identify any changes in accounting practices or unexplained disproportionate changes in relative dollar value for follow-up. NOTE: While preparing the above comparison, identify the amount of proposed consultant costs and evaluate the significance and sensitivity of the proposed costs. If selected for testing, utilize the audit program 10160 – Incurred Costs (Individual Packages) – Consulting Services to evaluate the proposed costs for allowability, allocability, and reasonableness. (FAR 31.205.33)	

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h. MAAR 19: Verify the mathematical accuracy of the contractor's rate computations. (CAM 6-611.1a)	
7. Other items to be evaluated: Prepare a schedule of vulnerable areas from an evaluation of the following:	
a. Reconciliation items requiring audit follow-up.	
b. Prior year audit file.	
c. Determine if the contractor uses its fiscal year as its cost accounting period (CAS 406/FAR 31.203(e)). (See CAM 8-406.1 and 6-605 for exceptions to the fiscal year.)	
d. MAAR 7: Evaluate the analysis of changed conditions; the reconciliation of payroll; and the direct and indirect labor account comparisons to the prior years' budget for evidence of undisclosed changes in labor charging practices (D/S 3.2.1)(CAM 6-604.1). Evaluate labor accounts for consistent classification between direct and indirect (CAS 402/FAR 31.202 and 31.203(a)).	
e. Board of Directors' minutes, audit committee minutes, copy of Corporate auditor's review, or prior analysis of minutes conducted under forward pricing rate audit (CAM 9-1205). These minutes may document major decisions that affect the contractor's organization and operations for the year(s) being audited (CAM 3-104.16).	
f. Audit leads obtained from evaluating the contractor's website, if any, employee publications, press releases, perambulations, etc.	
g. Audit leads derived from intervening assignments.	
h. Calculate Government cost-type and T&M/FPI percentages of indirect expense bases using the schedule of direct costs by element.	
i. If applicable, look at the external auditor's internal control letter and/or the "internal control report" prepared by management that accompanies the financial statements.	
j. Updated Internal Control Audit Planning Summaries (ICAPS) (MAAR 1). Identify any internal control deficiencies that would impact the incurred cost being audited. Evaluate changes in contractor's internal controls since the last audit.	
8. Other sources of reliance: Prepare a summary of audit areas covered under other audits:	
a. Identify the floor checks or other labor audits (including assist audits) covering the subject CFY (and performed during the FY). Note any positive findings for follow-up. Place a copy of the summary results of audit in the audit file.	

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b. Identify any subcontract and/or intracompany assist audits pertaining to the CFY being audited that have already been received (MAAR 12). Note any positive findings for follow-up. Place a copy of each report in the audit file.	
c. Identify other assignments (Operations audits, internal control audits, systems surveys, joint reviews such as EVMS, CSR, CPSR, CIPR), and Contract Administration Office (CAO) data which affect the scope of this audit. Insert a summary of each in the audit file.	
d. Contractor internal audits and other self-regulatory controls. If reliance is to be placed on the work of others (CAM 4-1000), the file should contain, at a minimum, the following documentation:	
(1) A copy of the report and/or written confirmation of the work performed.	
(2) The period and costs covered.	
(3) A summary of the result(s) of the audit(s).	
(4) A statement of the degree of reliance placed on the work of others (a statement of the audit scope covered by this reliance).	
9. Evaluate contract provisions:	
a. MAAR 7: Look for rate ceilings or cost categories which may not be billed directly on larger new contracts. Note for comparison to any unexplained changes in charging patterns identified during the preliminary steps. (CAM 6-604.1)	
b. Note completed contracts for close-out; identify subcontracts requiring assist audit.	
c. Evaluate the contractor's contract briefings. Ensure that all auditable contracts awarded during the year have been briefed. (CAM 3-200). If the contractor has not briefed all applicable contracts, the auditor should consider citing the contractor for a billing system deficiency. Any contracts that the contractor has not briefed should be briefed as part of this audit. Check contract briefings for special contract provisions affecting costs. (Coordinate this step with effort performed in a recent billing system audit, if applicable.) Look at contract briefs and other applicable contract information (CAM 3-202) maintained by the FAO, if available. Identify any non-DoD contracts subject to audit and verify the audit effort is reimbursable (i.e., approval to bill our audit effort has been obtained from the customer where necessary). If not, adjust the audit scope and auditable dollars accordingly (CAM 15-102.2)	
10. Obtain data to support the amortized restructuring costs claimed (e.g.,	

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amortization schedules for deferred restructuring costs and detailed schedules of the incurred restructuring costs by fiscal year, project and cost element). The support should be at a level of detail sufficient to allow the auditor to determine the allowability of incurred restructuring costs. Request all necessary assist audits:	
a. MAAR 12: Subcontract and intracompany order assist audits will be requested.	
b. Request assist audits of records maintained at other locations, including corporate office allocations and Washington D.C. office audits. (CAM 6-803, 804, 805, and 806)	
c. Coordinate with Field Detachment auditor as necessary.	
11. In planning the audit, consider the impact of any external restructuring activities (CAM 7-1914):	
a. Obtain data to support the amortized restructuring costs claimed (e.g., amortization schedules for deferred restructuring costs and detailed schedules of the incurred restructuring costs by fiscal year, project and cost element). The support should be at a level of detail sufficient to allow the auditor to determine the allowability of incurred restructuring costs.	
b. Determine if the incurred restructuring costs are near or in excess of the negotiated ceiling.	
c. Based on the level of risk, develop appropriate detailed steps (transaction testing) to assure the contractor is properly classifying restructuring activities in accordance with established agreements and DFARS 231.205-70, if applicable.	
12. In planning and performing the examination, consider the fraud risk indicators specific to the audit. The principal sources for the applicable fraud risk indicators are:	
<ul style="list-style-type: none"> Handbook on Fraud Indicators for Contract Auditors, Section II (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and 	
<ul style="list-style-type: none"> CAM Figure 4-7-3, CAM 6-305, and CAM 6-404.6. 	
Document in W/P B any identified fraud risk indicators and your response/actions to the identified risks (either individually or in combination). This should be done at the planning stage of the audit, as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in W/P B (Planning).	
13. In planning the audit, consider the impact of SAS 70, <i>Reports on the Processing of Transactions by Service Organizations</i> , as amended by SAS 88, <i>Service Organizations and Reporting on Consistency</i> , on	

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audit scope by performing the following steps:	
NOTE: The Incurred Pension Cost and CAS 412 & 413 Compliance program (Assignment Code 19412) and the Incurred Insurance Cost and CAS 416 and FAR Compliance program (Assignment Code 19416) also include the SAS 70 steps. If pension cost and insurance cost are selected for testing, the SAS 70 steps for service organizations related to those costs should be completed as a part of those supplemental audit packages).	
a. Determine if the contractor (user organization) uses any service organizations.	
b. If service organizations are used, determine if the transactions processed by the service organization are material.	
c. If transactions are material, determine if the service organization is part of the user organization's information system.	
d. If so, determine the degree of interaction between the service organization and the user organization. If high (as in the case of payroll processing, where the service organization receives time and attendance information from the user organization, prepares the payroll, writes the checks, etc., and then the user organization performs tests of the processed payroll for accuracy), there is no need to obtain an understanding of the service organization's controls. If low (as when a trustee manages pension assets):	
(1) Obtain and evaluate the service agreement (contract).	
(2) Obtain and evaluate the service auditor's report (if any), referring to the guidance in CAM 4-1000, Relying Upon the Work of Others.	
(3) If necessary, obtain and evaluate other information available at the user organization including user manuals, system descriptions, technical manuals, and other policies and procedures.	
(4) If necessary, obtain and evaluate (see CAM 4-1000) any reports prepared by the user or service organizations' internal auditors relating to internal controls over transactions and processes.	
(5) If necessary and with appropriate permission, visit the service organization and perform procedures or request an assist audit.	
e. Summarize effects of the evaluation of service organizations on scope of current audit.	
14. Entrance Conference – Arrange and conduct an entrance conference (see CAM 4-302). Explain to the contractor's representative that as issues are developed during the audit, they will be furnished to the	

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contractor for fact-finding and timely resolution.	
15. Prepare a detailed audit program.	
<p>a. Complete the audit program using information obtained during the current MY planning cycle, recent audit experiences and the preliminary audit step results, especially new areas of risk and sources of reliance. These two areas have high potential for revising audit scope from that originally programmed. Any significant changes in the planned scope of audit that you make, including the addition or elimination of an audit package must be fully documented.</p> <p>In developing transaction tests, include steps designed to facilitate updating of the ICAPS. Refer to CAM 5-108 on Testing Controls for detail on dual-purpose testing as it relates to transaction tests.</p> <p>If internal control audits or substantive transaction tests have not included tests of controls during the past 3 years, such tests should be performed as part of this audit. Refer to CAM 5-1000, Audit of Indirect and Other Direct Cost Systems Internal Controls, for additional guidance.</p>	
b. Set up CCFY MAARs assignments, if not already established:	
(1) MAAR 6: Labor Floor Checks or Interviews (CAM 6-404 & 6-405).	
(2) MAAR 13: Purchases Existence and Consumption (CAM 6-305).	
c. Budget audit program to the level that no sub step takes more than 40 hours to perform (CAM 3-103.2). (Add levels of detail as necessary.)	

C-1	Indirect Allocation Bases (MAAR 18, D/S 4.1.0 through 4.2.0)	W/P Reference
Version 7.1, dated December 2004		
During the transaction testing, ensure that the contractor follows consistent practices in identifying all costs incurred for the same purpose, in like circumstances, as either direct or indirect only. Document any noncompliances. (CAS 402/FAR 31.202 and 31.203(a))		
1.	Evaluate the contractor's indirect cost allocation bases for equity and consistency with generally accepted accounting principles, FAR, and CAS (including the applicability of the allocation bases). To the extent practical, rely on the steps performed under a recent CAS 410, 418, and/or Indirect and ODC system audit to satisfy these steps and	

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reference here. (CAM 6-606; CAS 410, 418)	
2. Determine if the same accounting period is used for accumulating costs in an indirect cost pool as for establishing its allocation base (CAS 406/FAR 31.203(e))	

D-1	Direct Material	W/P Reference
Version 7.1, dated December 2004		
During the transaction testing, ensure that the contractor follows consistent practices in identifying all costs incurred for the same purpose, in like circumstances, as either direct or indirect only. Document any noncompliances. (CAS 402/FAR 31.202 and 31.203(a))		
The transaction test steps appearing below are an outline which merely references related preliminary steps, prompts performance of MAARs and identifies the portion of the ICAPS to be updated. The supplemental audit steps for each audit area should be added and budgeted into this outline during the process of finalizing the audit program		
1.	MAAR 10: Adjusting Entries and Exception Reports for materials and other materials payments audits. (CAM 6-305.3a(1))	
2.	MAAR 13: Purchases Existence and Consumption. (CAM 6-305.3a(2))	
3.	Materials estimating/purchasing system audits and CPSRs, where required. (CAM 5-600; 5-700)	
4.	Other materials audits, including make-or-buy decisions (CAM 6-309) and requirements audits (CAM 6-308).	

E-1	Auditable Subcontracts (MAAR 12)	W/P Reference
Version 7.1, dated December 2004		
During the transaction testing, ensure that the contractor follows consistent practices in identifying all costs incurred for the same purpose, in like circumstances, as either direct or indirect only. Document any noncompliances. (CAS 402/FAR 31.202 and 31.203(a))		
The transaction test steps appearing below are an outline which merely references related preliminary steps, prompts performance of MAARs and identifies the portion of the ICAPS to be updated. The supplemental audit steps for each audit area should be added and budgeted into this outline during the process of finalizing the audit program.		

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1. Verify the contractor's schedule of auditable type subcontracts and intracompany orders under auditable type Government contracts and subcontracts.	
2. Evaluate the contractor's internal control system relating to subcontracts and intracompany orders. (CAM 6-801.1)	
3. Arrange for any required assist audits (CAM 6-801, 6-802, and 6-803).	
4. Analyze assist audit results and incorporate into the evaluation of subcontract/intracompany costs. Reconcile the allowable costs reported for the subcontract/intracompany effort in the assist audit report with the claimed subcontract/intracompany costs in the contractor's submission. Follow-up as needed with the assist auditor.	

F-1	Direct and Indirect Labor	W/P Reference
Version 7.1, dated December 2004		
During the transaction testing, ensure that the contractor follows consistent practices in identifying all costs incurred for the same purpose, in like circumstances, as either direct or indirect only. Document any noncompliances. (CAS 402/FAR 31.202 and 31.203(a))		
The transaction test steps appearing below are an outline which references related preliminary steps, prompts performance of MAARs and identifies the portion of the ICAPS to be updated. The supplemental audit steps for each audit area should be added and budgeted into this outline during the process of finalizing the audit program.		
1. MAAR 6: Labor Floor Checks or Interviews. (CAM 6-404) (Activity Code 13500)		
2. MAAR 8: Comparative Analysis-Sensitive Labor Account. (CAM 6-404.6b(4))		
3. MAAR 10: Adjusting Entries and Exception Reports for labor. (CAM 6-404.6b(6))		
4. Personnel policies and procedures and Compensation System Audits, if programmed; not required annually. (CAM 5-800 and 6-413)		
5. Executive Compensation: Perform sufficient steps to determine that all allocable direct and indirect executive compensation in excess of the statutory compensation ceilings (see CAM 6-414) has either been appropriately (1) excluded from the contractor's incurred cost submission or (2) identified as expressly unallowable costs questioned in the audit report. If another audit assignment has covered this step, reference the assignment and applicable working papers.		

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6. Other required labor audits.	
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G-1	Other Direct Costs (ODC)	W/P Reference
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During the transaction testing, ensure that the contractor follows consistent practices in identifying all costs incurred for the same purpose, in like circumstances, as either direct or indirect only. Document any noncompliances. (CAS 402/FAR 31.202 and 31.203(a))		
NOTE: Many, if not all, ODC expense categories have counterparts in the indirect cost pools, and may readily be combined with indirect costs for transaction testing.		
The transaction test steps appearing below are an outline which merely references related preliminary steps, prompts performance of MAARs and identifies the portion of the ICAPS to be updated. The supplemental audit steps for each audit area should be added and budgeted into this outline during the process of finalizing the audit program		
1. Identify the universe of job numbers/contract numbers for contracts that contain ODCs. Develop and document a plan for transaction testing of ODCs.		
2. Obtain detail of ODC transactions for identified universe of job numbers/contracts.		
3. Select transactions for review based upon the transaction testing plan.		
4. For selected transactions, evaluate source documents for completeness and accuracy, and determine the appropriateness of the charge with respect to terms of the contract and FAR/CAS.		
5. MAAR 10: Adjusting Entries and Exception Reports. Evaluate adjusting journal entries and exception reports for other direct costs. (CAM 6-504.4)		
6. Summarize the results of the ODC testing.		

H-1	Indirect Expenses	W/P Reference
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During the transaction testing, ensure that the contractor follows consistent practices in identifying all costs incurred for the same purpose, in like circumstances, as either direct or indirect only. Document any noncompliances. (CAS 402/FAR 31.202 and 31.203(a))	
The transaction test steps appearing below are an outline which merely references related preliminary steps, prompts performance of MAARs and identifies the portion of the ICAPS to be updated. The supplemental audit steps for each audit area should be added and budgeted into this outline during the process of finalizing the audit program.	
1. MAAR 5: General Ledger, Trial Balance, Income and/or Credit Adjustments, including analysis of miscellaneous income and balance sheet adjusting entries. (CAM 6-608.2d(5))	
2. MAAR 16: Indirect Account Analysis (CAM 6-608.2 c(2)). Analysis of critical or sensitive accounts and accounts selected through MAAR 15 evaluation should be referenced here to facilitate audit.	
a. Accounts containing transactions to be examined via statistical sampling.	
b. Accounts selected for 100% examination.	
c. Accounts to be evaluated by a method other than transaction testing.	
3. MAAR 10: Adjusting Entries and Exception Reports for indirect costs. (CAM 6-608.2c)	
4. Ensure that the contractor follows consistent practices in selecting the cost accounting period(s) in which any types of expense and any types of adjustment to expense are accumulated and allocated (CAS 406/FAR 31.203(e)).	
5. Miscellaneous indirect/ODC audits. (CAM 6-608)	
a. Review the contractor's IRS Form 941s (Employer's Quarterly Federal Tax Return) for the year(s) under audit to identify employee taxes withheld (liability) and employer matching payroll taxes (expenses) to determine total payroll taxes owed.	
b. Verify timely payment of payroll taxes through the contractor's use of IRS Form 8109 (Federal Tax Deposit Coupon), Electronic Federal Tax Payment System (EFTPS), or other information to support the contractor's payment.	
c. If the contractor failed to pay payroll taxes when due, it is delinquent in payment in the normal course of business and those costs should be questioned under FAR 52.216-7 b. (ii).	
6. Computer Cost Algorithms. (CAM 7-100)	

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7. Service Centers. (CAS 418; D/S 4.3.0)	
8. Unallowable costs (FAR 31.201-6 and CAS 405; CAM 7):	
a. Determine if expressly unallowable costs, mutually agreed to be unallowable costs, costs which specifically become designated as unallowable by contracting officer's written decision, and directly associated costs are identified and excluded (CAS 405/FAR 31.201-6).	
b. Evaluate voluntary deletions and questioned costs for directly associated costs that should also be excluded/questioned. When an unallowable cost is incurred, its directly associated costs are also unallowable (FAR 31.201-6(a)).	
c. Determine that costs directly associated with an unallowable cost, if normally included in an indirect cost pool to be allocated over a base that contains the unallowable cost, are allocated through the regular allocation process.	
(1) If a directly associated cost is included in a cost pool which is allocated over a base that includes the unallowable cost with which it is associated, the directly associated cost should remain in the cost pool. Since the unallowable costs will attract their allocable share of costs from the cost pool, no further action is required to assure disallowance of the directly associated costs (FAR 31.201-6(d)).	
(2) If the unallowable cost is not included the allocation base, the directly associated costs, if material in amount, must be purged from the cost pool as unallowable costs.	
d. Ensure that unallowable costs, which are normally included in an allocation base or bases remain in the base or bases.	
e. When control risk for any of the indirect/ODC objectives is assessed as moderate or low, and reportable expressly unallowable or inappropriately allocated costs are found, the auditor will perform the following steps:	
(1) trace the improper transactions through the contractor's cost system to ascertain the potential control weaknesses,	
(2) determine whether a CAS 405 or other noncompliance report should be issued,	
(3) determine whether the control risk ratings should be increased and a revised system report issued, and	
(4) determine whether transaction (i.e., substantive) testing for the current audit should be increased.	
9. Other. List. (Financial audits; systems audits; follow-ups; updates,	

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etc.)	
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I-1	Special Purpose Evaluations	W/P Reference
Version 7.1, dated December 2004		
NOTE: Any audits belonging to this area, which were performed elsewhere, should be cross-referenced here. These steps should be performed for each contractor year audited, if applicable. If an audit is scheduled, a supplemental audit program is required.		
1.	Insurance. (CAM 5-1303 and 7-500; CAS 416; D/S 7.3.x; standard audit program, Incurred Insurance Cost and CAS 416 and FAR Compliance, assignment code 19416). The Insurance Summary (19416 - Insurance Summary Schedule under “Other Audit Guidance” (OAG) in APPS) should be maintained in the permanent file and must be updated annually, regardless of whether a review or audit has been scheduled. Audit effort performed in the most recent CIPR and CAS 416 audits should be relied upon in determining the extent of effort required on these steps.	
2.	Pensions. (CAM 5-1303 and 7-600; CAS 412 and 413; D/S 7.2.x; FAR 52.216-7(b)(2) and 52.232-16(a)(2)(iii) (quarterly funding requirement); standard audit program, Incurred Pension Cost and CAS 412 and 413 Compliance, assignment code 19412).	
	a. IRS Form 5500 and funding should be evaluated annually for all plan types; the actuary's report and auditor's report should be evaluated for changes to defined benefit pension plans, (i.e., a segment closing, plan termination, curtailment or other change in benefits, changes in actuarial assumptions, etc.). All three external documents should be retained in the permanent file.	
	b. If pension costs are incurred for the year, the standard audit program, Incurred Pension Cost and CAS 412 and 413 Compliance, assignment code 19412, should be used to evaluate those costs and the contractor's compliance with applicable provisions of CAS 412 and 413.	
	c. If no pension costs are incurred for the year, the following steps are mandatory for defined benefit plans:	
	(1) Determine if any events have occurred since the last audit that would require an adjustment to previously determined pension costs per CAS 413.50(c)(12); i.e., a segment closing, pension plan termination, or curtailment of benefits. If so, in addition to completing the steps below, a special CIPR must be performed using the standard audit program CAS	

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413.50(c)(12) Segment Closing Adjustments, under assignment code 19413.	
(2) Evaluate the Trustee report and obtain an explanation for any significant withdrawals of pension assets. Perform additional audit steps as needed to ensure that Government contributed pension assets are protected.	
(3) Determine if any events have occurred since the last audit that may result in conditions that require segment accounting (CAS 413.50(c)(2) and (3)). If so, recommend to the ACO that a special CIPR be performed to verify that the contractor has complied with CAS 413.50(c)(2), (c)(3) and (c)(5).	
(4) If the contractor's practice is to calculate pension costs by segment:	
(a) Verify that the records required by CAS 413.50(c)(7) are properly maintained and that investment earnings of the trust are allocated in accordance with CAS 413.50(c)(7).	
(b) Determine if the transfer of active employees among segments distorts the ratio of assets to the actuarial accrued liabilities.	
(c) If so, verify that assets equal to the employees' actuarial accrued liabilities (determined using the accrued benefit cost method) were transferred in accordance with CAS 413.50(c)(8). Consider requesting the assistance of the DCMA pension specialist through the ACO (CAM 5-1303.1c).	
NOTE: Pension and insurance costs are audited by the FAO cognizant of the contractor location where the plans are administered and the costs are incurred. For multi-segment contractors, this will generally be the corporate home office. Therefore, divisional auditors may need to request an assist audit from the FAO cognizant of the corporate home office.	
3. Special Facilities Operating Costs, including GOCO rent allocations, if applicable, and if programmed for audit (CAM 6-607; 7-300).	

A-1	Concluding Steps	W/P Reference
Version 7.1, dated December 2004		
1. Completion of Field Work		

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a. Update the calculation of Government cost-type and T&M/FPI percentages of indirect expense bases.	
b. If a billing system audit was not performed in this CFY, test reconciliation of booked to billed cost.	
(1) Evaluate materiality of any overbilled amounts at both the total and individual contract level.	
(2) If the overbilled amounts are considered to be material, discuss with the supervisor the need to set up a billing system audit or special purpose audit of contractor overpayments to resolve the overbilling.	
(3) If the contractor has been authorized to direct bill, determine whether the contractor should continue to be authorized to direct bill (see CAM 6-1007).	
c. If any contracts contain or should contain the penalty clause, and expressly unallowable costs were included in the certified proposal, prepare a schedule of questioned costs by penalty class within indirect cost pools and percent of the base subject to penalty. Computations should be limited to the dollar value of the indirect expense recovery for each contract in the affected pool and its percent of the appropriate allocation base (CAM 6-609.1f.(5) and 10-504.5e(6)).	
2. Perform Permanent File and MAARs Updates	
a. Update relevant ICAPS (MAAR 1) (CAM 5-100).	
b. Where appropriate, update the permanent file (MAAR 3) (CAM 4-405.1).	
c. Update the MAARs Control Log (see M-MAARs.doc in Other Audit Guidance); include a completed copy of the control log in this working paper package. The control log must be signed by the supervisory auditor after reviewing the referenced working papers or audit work packages to insure that they include adequate MAARs coverage or an explanation in the working papers to support a "not required" coding. Document any known system weaknesses, and note any matters, which should be considered in subsequent price proposal audits.	
3. Summarize results of transaction tests.	
4. Summarize results of testing for compliance with FAR and CAS 401, 402, 405, 406, and any other CAS standard tested during this audit.	
5. Annotate on the schedule of direct costs by contract any direct costs questioned in order to provide a schedule of allowable direct costs by contract for use in preparation of CACS or CACWS.	

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6. Prepare/update cumulative allowable cost worksheet (CACWS) by contract and subcontract. Discuss with the contractor and request that it provide this schedule whenever possible.	
7. Check assist audit requests. Determine status of requested assist audits. If any requested assist audits are outstanding, follow up with the cognizant auditor. See CAM 6-709.2c for guidance on issuing the report without the requested assist audits.	
8. Incorporate results of supervisory review.	
9. Prepare schedule of questioned costs for exit conference.	
10. Hold exit conference. If rates are audit-determined, refer to CAM 6-700.	
11. Summarize results of audit and exit conference.	
12. Audit Report Preparation and Supervisory Review	
a. Prepare draft audit report and rate letter or DCAA Form 1. (CAM 6-900) Attach all assist audits to the final report (CAM 10-505).	
b. If applicable, prepare CAS noncompliance and internal control deficiency reports.	
c. If the auditor has encountered information that constitutes evidence or raises suspicion that fraud or other illegal acts have occurred, refer such suspicion by completing the DCAA Form 2000 in accordance with CAM 4-702.	
d. Calculate dollars audited and cost savings (Use DCAA Computation of Dollars Audited and Cost Savings.xls spreadsheet under Other Audit Guidance in APPS).	
e. Post hours and other data to working papers and DMIS input form.	
f. Incorporate results of Supervisory, FAO Manager, and RAM reviews. The top page of the final draft report should be initialed and dated by the reviewer(s) to document approval.	
13. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:	
a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.	
b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to	

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ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.	
c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.	
d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.	
e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.	
f. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.	
g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.	
h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.	
i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup)	

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will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.	
j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.	
k. Securely enclose the "backup" set of electronic files (CD) and any "official" set of hard copy in the hard copy folder.	
l. File the "official" set of electronic files in iRIMS (see iRIMS User Guide).	
m. <u>Do Not File Sensitive Audits in iRIMS</u> : Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.	